

VZCZCXRO7504
RR RUEHDBU RUEHSL
DE RUEHKV #0194/01 0361301
ZNY CCCCC ZZH
R 051301Z FEB 10
FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC 9280
INFO RUCNCIS/CIS COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 KYIV 000194

SIPDIS

DEPT FOR S/EEE, EUR/UMB, EB/ESC/IEC
DOE PLEASE PASS TO JELKIND, LEKIMOFF, CCALIENDO
NSC PLEASE PASS TO KKVIENT

E.O. 12958: DECL: 02/04/2020

TAGS: [ENRG](#) [EREL](#) [UP](#) [RU](#)

SUBJECT: UKRAINE: NAFTOHAZ PAYS ON TIME FOR GAS

REF: KYIV 71

Classified By: Classified By: Acting Economic Counselor Kaye A. Lee for
Reasons 1.4 (b) and (d)

11. (C) Summary. Ukraine paid \$780 million to Gazprom on February 4 for January gas purchases. As in January, the National Bank of Ukraine purchased Naftohaz-held government bonds to finance the payment. Experts suggest that the government would resort to the same payment scheme for the gas payment due March 7 as well, but warn that payments could once again become problematic later in the spring. Naftohaz is still in talks with a group of Russian banks about a possible \$4 billion loan for gas purchases. Payment problems will grow through the year without serious gas sector reform.
End summary.

12. (U) Naftohaz paid Gazprom \$780 million for 2.55 billion cubic meters (bcm) of gas purchased in January on February 4, ahead of the February 7 payment deadline. Naftohaz spokesman Valentyn Zemlyansky confirmed to us, ahead of Naftohaz's announcement, that the National Bank of Ukraine (NBU) had monetized Naftohaz-held government bonds to facilitate the payment. The same mechanism had been used for the January 6 payment. Presidential Energy Envoy Bohdan Sokolovsky had told us earlier on February 4 that the NBU might voice some protest but would once again assist with the gas payment. Gazprom confirmed on February 4 that Naftohaz had paid in full.

13. (C) Sokolovsky told us that the March payment for February purchases would also be made by monetizing Naftohaz-held government bonds, but warned that later gas payments could be problematic. This statement tracks with NBU Governor Stelmakh's comments on January 14 to the Ambassador. Stelmakh had acknowledged that the NBU had an obligation to facilitate the "external" gas payments (reftel). Naftohaz previously told us that it would purchase approximately 2.2 bcm (nearly \$665 million) in February and 2.4 bcm (\$735 million) in March.

14. (C) Naftohaz has had to rely on the NBU's assistance to make its monthly gas payment in part because the government is forcing Naftohaz to turn over collections to the state budget. Ivan Yurik, an Alfa Bank executive, and Sokolovsky both told us that Naftohaz revenues are being channeled to the budget so that Tymoshenko can pay pensions and salaries. Sokolovsky said Naftohaz had collected \$170 million from its gas sales in January but that this money would go to the budget. This was also true of a dividend payment of \$100 million that Naftohaz received from UkrNafta in early February.

15. (C) Naftohaz, according to Sokolovsky and Yurik, continues to discuss possible financing with a trio of Russian banks. Yurik said that Russia's Troika Dialogue is coordinating a

loan package put together by Alfa Bank, Vnesheconombank (VEB), and Vneshtorgbank (VTB). This loan could be used for the March gas payment if Naftohaz had exhausted its government bonds by that time. Sokolovsky told us that loan documents have been drawn up, but that Naftohaz Chairman Dubyna and Deputy Chairman Didenko were "afraid" to sign them and worried they would not be protected by PM Tymoshenko if she lost the February 7 presidential election. Sokolovsky said that the loan would be \$4 billion over two years at interest rates slightly lower than available on the Ukrainian market (currently around 23-26%).

16. (C) Sokolovsky also warned that the government was not planning to purchase enough gas to pump into its underground storage facilities over the summer. Every year Ukraine pumps gas into storage for use during the winter heating season. The underground storage facilities, which can hold up to 32 bcm of active gas, are an integral part of the Ukrainian gas transit system. Ukraine had approximately 26 bcm in storage at the beginning of the 2009-2010 heating season. The 2010 "gas balance" adopted by the Cabinet of Ministers at the end of December 2009 states that Ukraine will use 13.22 bcm from storage this year and pump 3.77 bcm into storage. Under this plan, Ukraine would have around 16 bcm in storage for the 2010-2011 heating season. According to Sokolovsky the lowest volume Ukraine has had in storage at the beginning of winter is 22.5 bcm. He warned that the transit system might not work properly with low levels in storage. The government's plan to pump a minimum amount into storage reflects the dire financial situation at Naftohaz and the state budget.

17. (C) Comment. Although Naftohaz made the February payment on time and in full, as it has done every month since signing the gas contracts with Gazprom in January 2009, the payment

KYIV 00000194 002 OF 002

situation will become more difficult over the next few months. Naftohaz, forced to sell gas at subsidized prices to a large segment of its customer base, is also seeing payment discipline, especially from the district heating sector, deteriorate. Without systematic reform in the gas sector, Ukraine will continue to be one missed payment away from provoking another gas crisis. End comment.
TEFFT